

SSEN Distribution Response to RIIO ED2 - Draft Determination

Core Methodology, 6. Maintain a safe, resilient, and reliable network

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| Question ID | Core-Q44. |
| Question | Do you have evidence that customers would be willing to face an increase in their bills to also receive an increase in their reliability, including that they understand the actual cost and how this translates into average power cuts? |
| Response | |
| <p>As part of our business plan development process, we engaged extensively with stakeholders, customers, and consumers with various backgrounds and with a diverse experience associated with network reliability across our network areas. The majority of stakeholders agreed that improving network reliability was critical, but not at any cost. As part of our stakeholder advocacy, our stakeholders confirmed that they were supportive of a proposed output that targeted a 20% reduction in the frequency and duration of unplanned interruptions. We carried out robust acceptability testing as part of our business plan testing and acceptance process, with both acceptability and affordability reaching 79% on the basis of a customer bill impact of £0.58 in the South and £0.74 in the North¹. This evidenced that stakeholders were supportive of SSEN delivering network reliability improvements whilst keeping the average bill broadly flat in real terms. We are not aware of any robust evidence that contradicts the finds above. If Ofgem takes a different view, it should make its rationale for doing so clear so stakeholders can hold Ofgem to account. Annex 1 lists all the stakeholders who wanted to discuss resilience of the network.</p> <p>Under SSEN's final business plan, stakeholders would see a significant increase in network reliability improvement (20% reduction in frequency and duration of unplanned interruptions), but the average bill would remain broadly flat. As detailed in our Business Plan Annex, '3.3. Business Plan Testing and Acceptance Results', we implemented the learnings from the acceptability testing used in ED2 for both Transmission and Gas Distribution (including feedback from the Challenge Group) alongside our own review of this process with the inclusion of industry best practice to ensure a robust, transparent, and well evidenced methodology. Furthermore, each participant was provided with pre-tasks to complete prior to the sessions, which included resilience outputs and the customer bill impact for each output. Vulnerable and business customers had one to one contact for this pre-task process. This ensured all participants had a comprehensive understanding of the questions being asked and the implication on bill impact. Overall, the acceptability testing process included over 1,000 domestic customers and 146 business customers. Further information including how any potential bias, and assumptions were mitigated against can be found in the Annex. Further detail was provided in our A7.2 Reliability Annex under Appendix C: Enhanced Engagement (IIS and GSoP).</p> <p>However, under Ofgem's Draft Determination it proposes a reduction in bills and promoting lower levels of network reliability which has not been tested with stakeholders and is not supported by evidence of greater acceptability and affordability. Annex 2 explains the full impact assessment of the Draft Determination on our Outputs.</p> | |

In this area, Ofgem's Draft Determination means that our targeted improvements to reduce the frequency and duration of unplanned interruptions would be reduced by up to 50%; changing out output to reflect a 10% reduction in frequency and duration of interruptions.

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| Question ID | Core-Q45. |
| Question | Do you have evidence of the cost of reliability improvements and the impact that lowering the revenue cap will have on them being achieved? |
| Response | |
| <p>As discussed in Core Q-44, our Business Plan was calibrated to deliver a 20% improvement in network reliability across ED2 as requested by our stakeholders, who were willing to pay a similar bill impact as ED1 for this performance increase.</p> <p>Ofgem’s Draft Determination has resulted in a cut to our reliability investment, but also proposes a cut to the original target position to be based on company specific performance as opposed to overarching industry targets. Whilst we agree with the change in approach to the target setting methodology, we have identified errors and judgement issues within the overall cost modelling suite. Ofgem should update the assessment such that we will be able to achieve our stakeholder led output target.</p> <p>Any gap between the Final Determination assessment and our business plan should be the perceived funding gap to achieve the original stakeholder target of 20% improvement in network reliability. This would be reflective of the cost of reliability improvements.</p> <p>Regarding the revenue cap of 100bps of RoRE, this will create an unnecessary barrier to achieving stakeholder driven targets. Whilst we recognise issues regarding customer willingness to pay, this is addressed through management of the VoLL metric and not through a revenue cap. Our stakeholders have asked us to deliver a 20% reliability metric improvement, but based on our analysis on the revenue cap, in our SHEPD licence area we would never be able to reach this improvement and in our SEPD licence area we would have a low chance (<20%) of reaching the improvement before the revenue caps were reached.</p> <p>Lowering the revenue cap would create a barrier for companies to drive network improvements. The management of the VoLL metric and target setting is the control on the amount customers pay for the level of improvement generated. A revenue cap could be detrimental to novel ways for companies to improve the network, because if the cap is reached then there is no drive for companies to further innovate.</p> <p>It must be noted that there is another protection built into the price control through the Return Adjustment Mechanism (RAM) to stop companies from making too much return. This should give customers and stakeholders confidence that returns will not vary too greatly from predicted figures.</p> <p>Based on our analysis, we would not be incentivised enough to meet our stakeholder led output. The Draft Determination clearly shows a disconnect between IIS performance, the incentives allowed and the baseline volume adjustments that Ofgem has made.</p> <p>As outlined in our business plan, in line with Ofgem’s Design Principle², companies should be funded to meet the baseline targets. We agree that any further improvements in levels of service should be funded through other means; but those other means must sufficiently incentivise DNOs to enable us to meet our stakeholder led output.</p> | |

Again, we are not aware of any robust evidence that contradicts the finds above. If Ofgem takes a different view, it should make its rationale for doing so clear so stakeholders can take an informed view.

² See Paragraph 6.5 Point 3 - https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/riio-ed2_framework_decision_jan_2020.pdf

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| Question ID | Core-Q46. |
| Question | What are your views on moving to an asymmetric cap and collar? |
| Response | |
| <p>We disagree with the asymmetry as the DD proposes to reduce baseline funding to meet targets that are lower than our stakeholder led outputs. With significantly lower powered incentive opportunities, we are left in a position that the DD funds us to meet Ofgem’s baseline targets, but does not provide adequate incentive for us to meet our stakeholders’ expectations. As a result, this limits our ability to take on the challenge of delivering higher levels of network performance.</p> <p>In addition, climate change presents a much higher risk of extreme and changeable weather, which is not within our control. This has the potential to significantly impact our network performance as not all events will exceed the threshold of an exceptional event, but some may come close to it therefore impacting our IIS performance. In 2021/22 there were over seven named storms with only one exceeding the exceptional event threshold. If this trend continues, we expect to see more weather events that are under the threshold which will have a significant impact on our network reliability assessment.</p> <p>The DD proposed incentive scheme promotes reactive investment. Ofgem should revert to the symmetry seen within RIIO-ED1 to incentivise DNOs to make the right investments to improve network performance by being proactive.</p> <p>Moving to an asymmetric cap and collar has the potential to alter DNOs’ approach to investing on the network to improve network performance as targeted network improvement projects would be less likely to reflect a good return on investment. This has been recognised by Ofgem in section 6.29, <i>“We recognise that, although a cap limits the cost to customers, it also reduces the number of improvements a DNO is incentivised to make.”</i></p> <p>Our concern with the reduction in the cap and the reduction in the associated CI and CML incentives, along with the wider cuts for asset intervention across our plan, is that we would not be able to meet our stakeholder led output of a 20% reduction in the frequency and duration of faults. Our original Business Plan, which kept the average bill broadly the same, would have enabled us to meet our stakeholder led output. However, the volumes gap, and associated expenditure gap, between our Business Plan and the Draft Determination across Asset Health Replacement, Load Related Expenditure, Environment, IT/OT, QoS and Tree Cutting cannot reasonably be resolved through the current incentive caps and associated rates as the returns are not sufficient.</p> <p>Our stakeholders have confirmed that they are supportive of our plan, the bill impact assessment, and the network improvement output; but the current position in the DD does not enable us to meet our stakeholder needs. From our assessment of the DD, we cannot identify any evidence that the asymmetry is supported by customer willingness to pay assessment. Ofgem should explore and evidence this change to willingness to pay, particularly as our assessment demonstrates that the position proposed in the DD would have a detrimental impact on our ability to meet our stakeholder led output. A symmetric cap and collar would appropriately incentivise DNOs, be supported by stakeholders and would promote more efficient use of customer money to drive targeted investment to further improve network performance.</p> | |

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| Question ID | Core-Q47. |
| Question | Are there alternatives to reducing the revenue cap that you think would better balance increases in reliability and the cost to consumers than reducing the revenue cap? |
| Response | |
| <p>We do not have any alternative to propose because our final business plan and associated stakeholder led network reliability output resulted in the average bill being broadly flat (as stated in our response Core-Q44). So, we do not agree with the Ofgem’s view that increases in reliability would result in high costs to consumers. In addition, the DD already contains a key mechanism to avoid run-away returns, the RAM.</p> <p>In line with Ofgem’s statutory duties, and with Core-Q46, there must be suitable incentives to enable and incentivise DNOs to drive investments to improve network performance. For the reasons explained in this response, we do not consider that the DD framework provides this. Ofgem has decoupled network improvements from wider works and has not considered the intrinsic relationship with asset health replacement, IT/OT, load related expenditure, tree cutting and network performance. This is clear based on the significant cuts seen right across the plan with the complete removal of quality of supply funding.</p> <p>Our extensive research and advocacy work indicates that our stakeholders have a different view on willingness to pay than Ofgem suggest in the DD, which it appears has not been updated since pre-RIIO-ED1, and therefore does not reflect the interests of existing and future consumers taken as a whole.</p> | |

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| Question ID | Core-Q48. |
| Question | Do you agree with how we have characterised the operation of the current CML methodology and our reasons for changing to setting targets in line with our CI methodology? |
| Response | |
| <p>We welcome and agree with the DD position to ensure that a consistent approach to the target setting methodology is proposed for both CIs and CMLs. This alignment in methodologies will simplify the overall target setting methodology whilst still requiring DNOs to continually improve network reliability for consumers.</p> <p>In line with <i>A7.2 Reliability Annex</i> of our final Business Plan, the targets originally proposed to be set for RIIO-ED2 were unachievable throughout the period. The significant step change in targets in year one of RIIO-ED2 was one of our biggest concerns as we would have been subject to significant penalties from year one. We also challenged the principles used within the Target Setting Methodology to derive the IIS targets and we discussed alternative options with Ofgem in bilateral discussions and during a Safety, Reliability and Resilience Working Group (as detailed in Annex 4).</p> <p>Our response to each of the Output Parameters set out in the DD is detailed below.</p> <p><i>1. Timing of Setting Final Targets</i></p> <p>Based on the proposed changes to the target setting methodology, we agree with the approach that Ofgem is taking to review the latest information before issuing the final targets. As this is based on our network performance and is within our control, it is fair to review targets by the dates proposed.</p> <p><i>2. The Ratchet</i></p> <p>We agree with Ofgem’s proposal to not use a ratchet as part of the assessment. The CI methodology does not have an applied ratchet so to include one for CML but not CI when trying to align methodologies does not make sense; especially when the ratchet has a minimal impact on the targets being set.</p> <p>We agree that “<i>comparing the target produced by the target setting model and a DNO’s latest performance and using the lower value as the starting target</i>” (Section 6.43) is fit for purpose and continues to require DNOs to improve network performance for our customers.</p> <p><i>3. CI Target Setting Methodology</i></p> <p>We agree with Ofgem’s proposal to retain the CI target setting methodology from RIIO-ED1 as it is reflective of our own network performance and is in line with customer expectations of minimum network performance for the funded investments.</p> <p><i>4. CML Target Setting Methodology</i></p> <p>In our final Business Plan <i>Annex A7.2 – Reliability</i> we outlined our key concerns with the RIIO-ED1 CML target setting methodology, these being:</p> | |

- The investment required to achieve these targets will result in significant costs to customers, with a high risk of costs exceeding the value of service improvements to customers. This is not in line with Ofgem’s own principles for designing incentives.
- Practically and operationally, it is extremely difficult for any network to make this scale of improvement annually and within the timescales required by RIIO-ED2.
- The CML target setting methodology is further distorted by comparative analysis which does not consider the historic funding and network configuration differences across the network companies.
- The RIIO-ED1 fast-tracking process created an uneven playing field between companies. The four fast-tracked licensees in RIIO-ED1 will have earned a higher allowed return on equity, an ex-ante reward of £140m, and higher totex allowances. Ofgem’s own analysis also sets out that the four fast-tracked licensees would have been subject to totex reductions of £678m if they were slow tracked. Due to the application of the sharing factor to IIS incentive rates, they will have also had opportunities to earn higher rates of rewards. Taken together this creates an imbalance in RIIO-ED2.
- Lack of transparency and clear rationale for consumers, stakeholders and network companies on why the CML target methodology applies comparative analysis that the CI target methodology does not apply.
- Lack of consistency as to how the CML target setting methodology is applied across all voltage levels (LV, HV, EHV & 132kV).

We agree with Ofgem’s proposal to align the CML methodology with the CI methodology as this mitigates our above concerns. The adjustment makes the overall IIS methodology consistent, fair and transparent for stakeholders, customer and consumers.

We would like to confirm that where the Core Methodology refers to the RIIO-ED1 CML target Setting Methodology being based on “lower quartile”, this is incorrect as the methodology was to link to upper quartile performance.

5. Improvement Factors

We agree with the proposed adjustment factors set, as it keeps the methodologies consistent whilst continuing to require DNOs to improve network performance for our customers.

6. QoS Funding

We recognise Ofgem’s proposal to remove QoS funding from all DNOs, which differs from RIIO-ED1 where the fast tracked DNO was awarded QoS funding.

Our support for the changes in the Draft Determination is contingent on Ofgem retaining its Design Principle³ that target outputs should be properly funded through baseline allowances. If that were to be re-visited, we would expect a full consultation to be undertaken.

Our fundamental concern is that the IIS incentive mechanism is clearly de-coupled from the significant reductions to wider investments proposed in our plan. The reductions to our Asset Health Replacement, Load Related Expenditure, Tree Cutting and IT/OT investments will impact our ability to hit baseline targets. This is compounded by the fact that the incentives that can be gained through IIS are not sufficient to enable us to meet our stakeholder led output.

³ See Paragraph 6.5 Point 3 - https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/riio-ed2_framework_decision_jan_2020.pdf

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| Question ID | Core-Q49. |
| Question | Do you agree with our rationale for retaining our RIIO-ED1 position on QoS funding? Can you provide any evidence that an alternative approach would not result in double rewarding alongside the IIS? |
| Response | |
| <p>As per our response to Core Q48, we recognise Ofgem’s proposal to remove QoS funding from all DNOs. However, our fundamental concern is that the IIS incentive mechanism is clearly de-coupled from the significant reductions to wider investments proposed in our plan. The reductions to our Asset Health Replacement, Load Related Expenditure, Tree Cutting and IT/OT investments will impact our ability to hit baseline targets, and this is compounded by the fact that the incentives that can be gained through IIS are not sufficient to enable us to meet our stakeholder led output.</p> <p>We do not have any other information or evidence that would suggest an alternative approach would not result in double rewarding alongside IIS. However, we would welcome further discussions with Ofgem, DNOs and Stakeholders should alternatives be proposed.</p> | |

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| Question ID | Core-Q50. |
| Question | Do you have any examples of situations where fault-related interruptions could be genuinely “exceptional” and how these could be separately identified from those that occur during planned works? |
| Response | |
| <p>Yes, we do have three examples of this in SEPD. The details of the incidents are provided below.</p> <p>1. Portsmouth</p> <p>On Monday 19th November 2018, both the Lovedean – Fort Widley no.1 132kV circuit and the Portsmouth no.1 132/33kV circuit tripped open due to a fault on tower LPA1. Two tension insulators, one on the yellow phase and the other on the blue phase, failed causing a phase to earth fault. The nature of the fault was unstable and so caused wider network protection to operate to isolate the fault from the main system. The fault caused the operation of Portsmouth circuit breaker C1T0 which interrupted all supplies to Portsmouth substation and its downstream primary substations impacting 51,477 customers.</p> <p><i>Pre-event</i></p> <p>The 132kV running arrangement at Portsmouth sub-station was abnormal at the time of the incident. A capital scheme was underway to replace the two 45MVA 132/33kV transformers with a single 90MVA transformer and so the Portsmouth substation was running on its remaining 132kV circuit and transformer. The 33kV network was running normally with the 33kV busbars running solidly coupled.</p> <p><i>During</i></p> <p>At 20:55 on Monday 19th November 2018, trip alarms were received in the Network Management Centre indicating that a transformer at Portsmouth had tripped as well as the 132kV circuit, Lovedean to Fort Widley. The protection on circuit breaker at Portsmouth operated, together with operation of Lovedean and Fort Widley. Engineers were despatched immediately to investigate the reason for the trips. Based on the circuit breaker operations, it was unclear at this stage whether there was an issue at Portsmouth or on the circuit between Lovedean and Fort Widley.</p> <p>With the available information from those that attended the fault on site, the control engineer successfully re-energised the Portsmouth 33kV busbars and proceeded to re-energise each circuit and downstream primary substation in turn.</p> <p><i>Post Event</i></p> <p>The tension insulator stings that failed were replaced and the circuit was restored to normal operation.</p> <p><i>Our Claim</i></p> <p>A total of 51,477 customers were interrupted (> three minutes) as part of the event, this equated to 1.678 CI (as per Ofgem’s calculation methodology) and the total Customer Minutes Lost was 1,752,658 which equates to 0.571 CML (as per Ofgem’s calculation methodology).</p> | |

| | CI | CML |
|-----------------------------|--------------|-------|
| Ofgem OEE Threshold | 0.84 | 0.67 |
| Events CI & CML | 1.678 | 0.571 |
| CI & CML Claimed Adjustment | 0.838 | - |

2. Didcot Power Station Demolition – Third Party Incident

On Sunday 18th August 2019 at 07:00, an incident occurred next to Didcot Power Station affecting the 33kV double overhead line running parallel to the site. A protection mat from a controlled demolition was ejected from the Didcot site and came into contact with the 33kV overhead line. This started a chain of events resulting in the loss of Drayton 33kV substation.

Pre-event

There was one planned outage at the time of the event – the 132kV cable was isolated specifically for the demolition as it crossed the exclusion zone, but this had no impact on this event. We had reviewed the risk of the demolition on the 33kV overhead lines, and as the affected overhead line was outside the exclusion area, it was assumed that debris would not affect the overhead line and it was kept in service. As a precaution, the protective matting was added to the blast site to reduce debris. The network supplied from Drayton 33kV complies with SEPD standard planning designs. As such, we are of the view that the network is compliant with the security standards (ENA EREC P2/7).

During event

Supply to 44,521 customers was restored through tele-control by reinstating Drayton 33kV. One customer was interrupted for a longer period, however this is in line with their connection agreement. It must be noted that 3,444 customers were restored within one minute, therefore they were not accounted for as part of the Customer Interruption (CI) claim as they did not breach the three-minute threshold set by Ofgem; less than three minutes is deemed to be a short interruption.

Post-event

The two circuit breakers that failed to operate have been removed from the network and returned to the manufacturer to establish the cause of the failure. At the time of writing this response the results have not been returned.

Our Claim

A total of 41,077 customers were interrupted (> three minutes) as part of the event, this equated to 1.33 CI (as per Ofgem’s calculation methodology) and the total Customer Minutes Lost was 2,038,297 which equates to 0.66 CML (as per Ofgem’s calculation methodology).

| | CI | CML |
|-----------------------------|-------------|------|
| Ofgem OEE Threshold | 0.84 | 0.67 |
| Events CI & CML | 1.33 | 0.66 |
| CI & CML Claimed Adjustment | 0.49 | - |

Conclusion

Ofgem’s independent reviewer of the claim stated “It is GHD’s opinion that this event meets the CI threshold, but not the CML threshold. This is consistent with SSES’s Statement of Facts”

3. Fleet 132kV Current Transformer (CT) Failure - Manufacturer Defect

At 14:54 on 4th May 2022, alarms alerted the control room to bus zone protection operation on both Fleet 132kV reserve bar 1 and reserve bar 2. The impact of the trip was the loss of supplies to Alton and Fernhurst 132/33kV substation due to ongoing works on the line and circuit breaker replacement.

Pre-event

Except for the Fleet-Alton-Fernhurst circuits, all other 132kV circuits at Fleet were normally selected and in service. Under system intact, a 132kV dual circuit tower route supplies both Alton (ALTO) and Fernhurst (FERN) 132/33kV substation. At the time of the fault, the Fleet-Alton-Fernhurst no.1 circuit was out of service for work at Alton to replace a 132kV circuit breaker and tower repair works on the main line.

During event

The incident interrupted the supplies to 79,389 customers; 3,692 of these customers were restored via an auto change-over scheme at Haslingbourne primary sub-station within three minutes. Following confirmation of the damaged equipment from site and subsequent manual switching operations, all customers were restored within 60 minutes.

Post-event

Once supplies were restored, on site investigation began to identify specifically what had happened. The plant that had failed was a standalone single phase CT unit forming part of the Fleet 132kV busbar protection, see Appendix 1 for the Protection report. Both zones operated as the CTs were in the overlap zone, which is standard for a bus zone scheme. The CT was on the red phase and was an ABB manufactured unit from 2002, type IMB145.A2. There were no other external factors evident to have caused the failure, no debris or foreign material in the 132kV compound. The weather on the day was fine with a recorded peak temperature of 19°C at nearby Farnborough weather station with no record of lightning on the day.

Our Claim

A total of 79,389 customers were interrupted (> three minutes) as part of the event, this equated to 2.412 CI (as per Ofgem's calculation methodology) and the total Customer Minutes Lost was 4,198,366 which equates to 1.338 CML (as per Ofgem's calculation methodology).

| | CI | CML |
|-----------------------------|--------------|--------------|
| Ofgem OEE Threshold | 0.84 | 0.67 |
| Events CI & CML | 2.412 | 1.338 |
| CI & CML Claimed Adjustment | 1.338 | 0.668 |

Conclusion

SSEN are still awaiting confirmation that our claim has been accepted.

Additional Information

Due to higher voltages connecting to large number of customers in our SEPD licence area, thresholds in the Other Exceptional Events criteria can be breached. However, the same cannot be said for

SHEPD. SHEPD does not have the same density of customers and the highest voltage that we operate at is 33kV. As such, it is impossible for SHEPD to ever trigger the thresholds set for One Off Exceptional events.

As per our response to the SSMC, we agree that there should continue to be an OEE mechanism, but we consider that transmission incidents should be included within the assessment. This is particularly pertinent for our SHEPD licence area. Transmission incidents are outside of our control, and it would be uneconomical to build a network that is resilient to these external factors; DNOs should be adequately protected for incidents outside of our control.

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| Question ID | Core-Q51. |
| Question | Do you agree with our assessment of the OEE thresholds and the financial impact on each DNO? |
| Response | |
| <p>We agree with the assessment that has been undertaken as the overall risk attributed to each DNO is broadly similar.</p> | |

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| Question ID | Core-Q52. |
| Question | Do you agree with our proposal not to have an end-of-period adjustment mechanism? If not, what criteria should we use to determine whether a DNO has used its allowance for WSC, without it creating uncertainty? |
| Associated Evidence | |
| Title | Link to Evidence |
| Annex 4 Interactions with Ofgem | n/a |
| Response | |
| <p>SSEN agrees with the proposed UIOLI mechanism for WSC as well as the principles proposed to identify and justify targeted investment to address WSC.</p> <p>As part of the consultation with respect to the WSC Governance Framework we welcome the opportunity to work with Ofgem, other DNOs and wider stakeholders to ensure that the framework is clear and drives the right intentions to improve network performance for our customers that are deemed worst served under the latest RIIO-ED2 methodology.</p> <p>It must be noted as per response to Core Q-111 that the aggregation of modelled results is presented incorrectly within the Core Methodology document. As such, Table 19 is not the true reflection of WSC modelled costs and will be required to be updated for Ofgem’s Final Determination.</p> <p>There is a modelled adjustment occurring within WSC in the Totex side of the modelling suite. In section 7.302 within the Consultation Position Table in the Core Methodology document, Ofgem states “We propose to accept WSC costs as submitted”; therefore, we would expect WSC costs to be removed from the Totex modelling process as an excluded cost. We do not agree with the proposed cuts and consider this to be a material error that is not consistent with Ofgem’s statement within the Core Methodology document. We are not requesting any further investment for WSC as part of our Draft Determination response as we expect our original funding request to be made available in line with Ofgem’s methodology and treatment for other DNOs. This was also discussed as part of a bilateral with Ofgem on IIS and QoS on 22nd July 2022 (further details in Annex 4).</p> | |

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| Question ID | Core-Q53. |
| Question | Are there any other areas or metrics that we should include in our governance framework? |
| Response | |
| <p>We are not proposing any further areas or metrics for inclusion in the WSC governance framework.</p> <p>We agree with Ofgem’s position to develop a suitable governance document for Worst Served Customers through stakeholder engagement and discussions via the SRRWG. The points raised in the Core Methodology Statement under section 6.127 highlight the areas that do need further discussion to ensure that the level of information required is adequate and proportionate. Other than clarifying data requirements, we are comfortable that the proposed areas and metrics proposed are fit for purpose.</p> <p>In addition, SSEN agrees that North of Scotland Resilience projects (CV15), which are directly associated with the WSC methodology, should be brought in line with the discussion on the Governance Framework for WSC schemes, in line with Ofgem's statement in Section 7.283.</p> | |

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| Question ID | Core-Q54. |
| Question | Do you agree with our proposed approach on NARM? |
| Associated Evidence | |
| Title | Link to Evidence |
| Annex 3.1 Enhanced Engagement Strategy | Link to document |
| Annex 2: Outputs Summary | n/a |
| Annex 4: Interactions with Ofgem | n/a |
| Annex 6: Procedural Issues Annex | n/a |
| Annex 10: North of Scotland Annex | n/a |
| Annex 12: Unit Rates Annex | n/a |
| Annex 15: Non-load EJPs addendums | n/a |
| Response | |
| <p>1. Reviewing IGP Requirements</p> <p>We support the continued development and reporting on the Information Gathering Plan (IGP) progress on a regular basis in a format yet to be agreed. SSEN has submitted a draft proposal on this to the SRRWG including all the DNOs and this should be further discussed and agreed prior to inclusion in the RIGs and relevant licence condition to formalise this mechanism.</p> <p>2. Consideration of Uncertainty Mechanism (UM) to manage non-NARM related expenditure</p> <p>We also support the exclusion of the other asset categories classified as Non-NARM from any incentive mechanism at this time in RIIO-ED2. We would support the further development of introducing some, if not all, of these additional asset classifications into an incentive mechanism in the form of NARMs during the early stages of RIIO-ED2 in preparation for being incorporated for RIIO-ED3.</p> <p>We note however Ofgem’s view that the “cost assessment approach detailed in Chapter 7 has set a robust allowance and that there are not sufficient levels of uncertainty around this investment to merit the introduction of an uncertainty mechanism at this time”. We agree that a robust approach to assessing these costs, in line with the RIIO-ED1 methodology, would sufficiently protect customers. Further protection could be afforded in targeted areas with the use of PCDs. However, we have concerns that Ofgem’s approach to cost assessment for these categories is flawed in a number of ways and results in a detrimental outcome for customers, by limiting our ability to deliver well-justified and efficient resilience improvements in line with customer expectations. Please see our response to Core-Q44 and our Annex 3.1 Enhanced Engagement Strategy from our final business plan for full details.</p> <p>3. Incentive Arrangements</p> <p>With regard to the NARMs proposals in the DDs relating to the proposed Incentive arrangements, SSEN would agree to these being acceptable. The deadband of +/- 5% on the target outcome is a fair and proportionate measure (assuming the targets are fairly set, see our concerns on this point detailed below).</p> <p>4. Baseline Network Risk Outputs</p> | |

(See additional information in Annex 15: Non-load EJPs addendums)

We fundamentally disagree with Ofgem's proposed approach to setting Baseline Network Risk Outputs. The proposed funding (both in terms of unit cost and volumes) is no longer sufficient to deliver the required volumes of asset interventions to allow us to meet the NARM monetised risk reductions submitted in the calculations from the original Business Plan submission.

We disagree with Ofgem's decision to retain the Monetised Risk outputs proposed by each DNO despite Ofgem having rejected the volumes that these output targets are based upon. We understand that Ofgem has made this decision as it considers that DNOs have been able to flex their NARMs plans during RIIO-ED1 whilst still delivering against their targeted Monetised Risk outputs, however we consider that this is not a reasonable position to take (this is detailed in Annex 2).

Ofgem are correct that during RIIO-ED1 we have intervened upon a different mix of NARMs assets and have used a different mix of intervention options than initially anticipated. This is normal as the list of assets for intervention will change throughout any price control to reflect the latest condition data we collate during on-going inspections. We constantly adapt our NARMs intervention plan to prioritise assets for intervention that represent the most risk for our network customers. It is possible to do this whilst still meeting our Monetised Risk targets as indicated by Ofgem's Engineering Hub and section 6.143 of the Draft Determination Core Methodology document. This is a clear policy intent of the NARMs mechanism.

However, this was **only possible because** we were initially awarded the volumes required to meet the resultant Monetised Risk target. Within RIIO-ED1 we could then choose to flex our plan where it was appropriate to do so by carrying out a different mix of interventions to reflect new data. However, if we are not awarded the initial volumes that makes up the Monetised Risk outputs that we have calculated for RIIO-ED2, we do not then have the same opportunity to flex our plan during RIIO-ED2 by swapping the intervention of one asset with another, whilst still meeting the Monetised Risk targets.

As an **example**, if in RIIO-ED1 we intended to remove 100,000 Monetised Risk Points (MRP) from the network by replacing 1 x Transformer, we may have decided to instead to replace 2 x Circuit Breakers that deliver 50,000 MRP each. In this example, we have chosen to flex our plan to account for new data which indicates that it is now in customers interest that we prioritise the 2 x Circuit Breakers over the 1 x Transformer. However, if we were not awarded the initial volume for the 1 x Transformer (as per the volume reductions proposed by Ofgem's Engineering Hub) it is then not possible to use this cost/volume allocation to replace the 2 x Circuit Breakers instead and the target of 100,000 MRP would then not be possible.

There is no scope to out-perform if the target is set with a significant negative offset at the start of period, in the case of SSEN some 23.7% such that we could only achieve 76.3% of the submitted NARMs target if we delivered the planned interventions based on the allowed volumes and costs.

As such, it is critical that Ofgem adjusts the RIIO-ED2 Monetised Risk outputs if the volumes that this target is based upon are not fully accepted. In addition to the above Ofgem's proposed approach is flawed for the following reasons:

An additional, unquantified, and inconsistent efficiency:

- a) Ofgem has disallowed NARMs Asset Replacement (CV7a), Refurbishment (CV9), and HVP cost and volumes within the disaggregated benchmarking but still intends to hold us to the Monetised Risk reduction that the intervention in these volumes would result in. This is in effect a hidden additional efficiency over and above the other ongoing efficiency cuts that Ofgem has applied to our RIIO-ED2 baseline funding.
- b) This hidden efficiency is equal to approximately **23.7%** of our initial Monetised Risk target (**£214m**). A decision to retain the initial Monetised Risk outputs despite the large Monetised Risk 'gap' the volume cuts have introduced, is contrary to Ofgem's previous Framework decision that DNOs should be fully funded to deliver the outputs we are measured against. There is no recognition of the additional impact on the unit rate efficiencies also being proposed which further challenge the ability to achieve the submitted target if the volumes are not available to provide the necessary flex in delivering the plan to achieve the target. The combination of the reduced volumes and unit rates make this completely unworkable and not achievable.
- c) Ofgem has not specified how SSEN is still to meet the proposed Monetised Risk reduction without allowing the CV7a, CV9, HVP volumes required to meet this target. Ofgem has suggested that an undefined "mix of asset intervention activities" would allow us to still meet this target without affording us the Refurbishment and Replacement volumes required to do so. An example suggested by Ofgem is the use of "a higher proportion of asset refurbishment interventions". This is the only example provided by Ofgem to describe why it believes it is feasible for us to meet the Monetised Risk target despite the cuts apportioned to **both** CV7a and CV9. However, again, in reducing our Asset Replacement volumes (CV7a), Ofgem has not proportionally increased our Asset Refurbishment (CV9) allowance to allow us to meet the Monetised Risk reduction, despite this being the solution suggested by Ofgem. It is worth highlighting rather than providing this increase, Ofgem has proposed, as part of its assessment, to also reduce our Refurbishment allowance to further reduce the potential to close the additional Monetised Risk delta 'gap' created.
- d) Ofgem has demonstrated that it has not quantified the scale of the Monetised Risk reduction "gap" that disallowing our CV7a, CV9, HVP volumes has introduced. Without quantifying the impact of the proposed reduction to both cost and volumes we are unclear how Ofgem can arrive at the conclusion that it is possible for us to bridge this gap using an undefined mix of other intervention options. To fully justify its approach, Ofgem must identify the specific Health and Criticality of the individual assets they have disallowed to then quantify the total Monetised Risk reduction that these represent. We would then expect Ofgem to demonstrate that this gap can be feasibly bridged by the other intervention types that Ofgem has suggested. Without undertaking this activity, Ofgem does not have sufficient evidence to arrive at the position that it is fair and reasonable to hold us to the original Monetised Risk target despite cuts across all NARMs related interventions (CV7a, CV9, HVP).
- e) As per our response to Core-Q45, the volume adjustments across CV7 and CV9 clearly show a disconnect between asset intervention and IIS performance. In line with Ofgem's Design Principle⁴, companies should be funded to meet their baseline targets; however, the additional volume adjustments in CV7, CV9 and the wider plan detach from this principle and from our stakeholder led output for network performance.

Penalises DNOs who have already optimised their proposed NARMs interventions

⁴ See Paragraph 6.5 Point 3 - https://www.ofgem.gov.uk/sites/default/files/docs/2020/01/riio-ed2_framework_decision_jan_2020.pdf

- f) Ofgem has stated *“For example, in RIIO-ED1 all DNOs are on track to deliver their risk point output, with several DNOs deploying a materially higher proportion of refurbishment interventions to replacement activities relative to their forecast”*. We disagree with this point. This statement assumes that we have not already optimised the proportion of asset refurbishments to asset replacements in our plan. We have had no specific feedback from Ofgem to indicate this is not the case. Ofgem is also pre-empting the outcome of the RIIO-ED1 closeout which is not appropriate given that the closeout mechanism is designed to identify where DNOs have been efficient or inefficient during RIIO-ED1.
- g) Our RIIO-ED2 NARMs proposals are based upon condition data specific to each individual asset category as per our CBRM models. As such, in determining our CV7a and CV9 volumes, we have already optimised the mix of Asset Refurbishment to Asset Replacement on the limited asset categories where Refurbishment is a viable intervention option. This mix between CV7a and CV9 is evidenced by the CBAs we have provided and within the various asset condition reports we provided during the SQ process (e.g., 132kV Transformers (GM)). Therefore, we fundamentally disagree with the premise that we can find sufficient efficiencies through Asset Refurbishment that would allow us to make up the cuts applied to **both CV7a and CV9** especially where the Refurbishment volumes have also been reduced in Ofgem’s proposal.
- h) Ofgem has not demonstrated that the volume reduction applied within the disaggregated benchmarking is consistent across all DNOs and the scale of the challenge caused by the resultant Monetised Risk “gap” is equal for all DNOs. The Monetised Risk gap that some DNOs have to fill using the undefined “other intervention activities” may be larger than it is for others. It also punishes the DNOs who have already attempted to optimise their CV7a vs CV9 volumes given that these DNOs will have less opportunity to find the efficiencies suggested by Ofgem when compared to the DNOs who have not. Similarly, Ofgem has not assessed the additional impact the SEN enhanced (NAIM) methodology, which has saved the customers around £105m, could have when applied to the other DNOs in the same way to identify the proactive aspect of additional risk we have asset managed in our Business Plan.
- i) Ofgem has stated that a *“mix of asset intervention activities likely to be undertaken by DNOs to maintain asset risk on their networks”*. Firstly, for many asset categories, refurbishment is not a viable intervention option as demonstrated within our EJPs and reflected across all the DNOs NARM2 and NARM3 tables. Secondly, we are not planning to “maintain the risk on our network”. The total Monetised Risk on our network will increase over RIIO-ED2 as per our Network Asset Intervention Methodology (NAIM). We disagree with the premise that maintaining the total Monetised Risk on the network should be an objective we target. This objective would significantly increase the cost and volumes associated with our CV7a and CV9 allowance and will continue to do so into the future unless you intervene at a rate greater than your degradation of all assets with effectively more new assets than those that are aging.

Encouraging inefficient intervention to chase Monetised Risk reduction:

- j) Ofgem’s suggestion to undertake a higher proportion of Asset Refurbishment to Replacement to bridge the Monetised Risk gap they have created will lead to inefficient interventions where the proposed Refurbishment would not adequately extend the lifetime of the asset to justify the cost associated with that intervention. DNOs will be forced to undertake such inefficient interventions to allow them to temporarily hit an unrealistic Monetised Risk reduction they are now expected to be held to. This is not in the interest of existing or future network customers.
- k) Ofgem has departed from its original approach as set out in the SSMD which was that “NARM will be part of a wider toolkit for the assessment and justification of asset intervention

investment decisions.”⁵ While we recognise that Ofgem intended to build on its RIIO-ED1 approach, Ofgem has departed significantly from the use of NARMs in some areas in ways that were not tested or discussed through working groups, and therefore could not have been reasonably foreseen. This includes the use of a “survivor” model, which was not provided to us until ten days into the consultation period (as detailed in Annex 6). Furthermore, Ofgem appears to have taken an inconsistent approach when applying the outputs of the Survivor Models within the disaggregated benchmarking from asset category to asset category and from DNO to DNO.

Does not account for revised unit costs that are undeliverable Rates:

(See additional information in Annex 12: Unit Rates)

- l) For various asset categories within CV7a and CV9 we disagree with the unit cost that Ofgem has awarded. In some cases, our volumes are not deliverable at the unit rates that have been proposed. As a result, it is not reasonable to expect SSEN to meet the original Monetised Risk targets if the unit rates awarded mean that we are unable to deliver the volumes we have proposed.
- m) The output of SSEN’s CBRM models allows us to identify the most efficient intervention option available to each individual asset. However, by comparison the alternative NARMs volumes proposed by Ofgem have on occasion been informed by extremely basic age-based Survivor Models. Amongst their many flaws, these Survivor Models are unable to identify the most efficient intervention option available to each individual asset unlike our CBRM models. Given that this is the approach Ofgem has taken, it is unclear how Ofgem can arrive at the conclusion that it is possible for us to find efficiencies significant enough for us to bridge the unquantified Monetised Risk gap they have created through volume cuts, by increasing the proportion of Refurbishment to Replacements.

Unfairly penalises SSEN where subsea cable investments have been rejected:

- n) Within our SHEPD licence area, the subsea cable replacements have been significantly challenged. These investments account for the largest percentage of the Monetised Risk reduction that we have targeted across all areas (High Value Projects, Uncertainty Mechanisms, Whole system investment proposals or the NARM asset drivers). It is not fair or reasonable nor acceptable to expect us to remove this large Monetised Risk from our network if the funding and volumes are not allowed for us to carry out these interventions. Further details can be found in our North of Scotland Annex 10.

Summary:

In summary, Ofgem’s Draft Determination position on the Baseline Network Risk Outputs is neither fair nor reasonable. We believe the decision to maintain the Monetised Risk targets despite disallowing both volumes and costs will lead to inefficient investments by DNOs to the detriment of network customers. It is our view that Ofgem’s position will negatively impact the overall network resilience in the longer-term, and while this may result in lower costs for consumers today, it will almost certainly increase the amount of costs borne by future consumers.

Our original business plan submission was robust and evidence-based, as a result of the Network Asset Intervention Methodology (NAIM) we have developed for RIIO-ED2. Our bespoke approach was

⁵ SSMD, Annex 1, p.95

recognised as industry leading during the Ofgem Cost & Engineering Bilateral held on the 28th July 2022 (details on Ofgem engagement in Annex 4), although the £105m efficiency associated with our NAIM has not been accounted for within Ofgem's assessment of the Baseline Network Risk Outputs. Our NAIM is SSEN-specific and goes beyond the original NARM methodology to maximize the 'extended potential life of the asset' before intervention is triggered. This is determined our highly conservative Health Score Intervention Criteria (HSIC) thresholds which have been applied to each asset category. This approach does not provide excessive volumes of Asset Replacements or Asset Refurbishment. In fact, application of the current industry average original methodology would result in a **£105m increase** against the baseline allowance put forward in our business plan. Therefore, our NAIM and the associated HSIC results in an additional efficiency factor above and beyond those explicitly included by Ofgem in its DDs, **saving the customer £105m** expenditure on NARM related asset intervention whilst providing SSEN the ability to proactively manage the Network Risk more efficiently.

There is a risk that Ofgem's assessment framework will penalise companies seeking to find additional ways to drive efficiencies. We note that we explained our NAIM methodology in our business plan (please see **A_7.1 Safe & Resilient of our final business plan**). We also discussed our proposed approach with Ofgem on 19th November 2021 (see Annex 4). However, we note that we did not receive any SQs from Ofgem relating to our approach and have not received any acknowledged from Ofgem of the significant cost reductions we have built into our plan with the approach we have chosen to take.

Based on Ofgem's proposed allowances (unit cost and volumes), we have carried out an initial quantification of the potential impact on our targeted Monetised Risk outputs. In total, Ofgem's proposed volume cuts will **reduce our Monetised Risk delta from £903.8m to £689.8m**. This equates to a **reduction of 23.7%** when compared to the outputs initially proposed (as detailed in our outputs assessment in Annex 2). Please note, this is an approximation of the impact only and further detailed analysis is required to accurately quantify the impact of Ofgem's volume and unit cost cuts given that the Monetised Risk outputs depend upon both the Health and Criticality of each individual asset included in our CV7a, CV9 and HVP proposals. Since Ofgem has not been specific as to which assets have been disallowed, we would need to revisit our NAIM to identify which assets should be deferred.

To conclude, Ofgem must revise its approach to setting NARM related allowances and/or baseline network outputs, to correct for the issues outlined in this consultation response.

As a minimum, if the volumes we have requested in CV7a, CV9 and HVPs are not allowed, Ofgem should reduce our Monetised Risk outputs proportionally to reflect this. This would require Ofgem to be specific about the investments that it considers are not justified so that the Monetised Risk outputs can be corrected accurately.

However, as set out within our response to Core-Q73 we strongly disagree with Ofgem's decision to disallow any of our NARM volumes given the significant efficiencies associated with our Network Asset Intervention Methodology (NAIM) and the adherences to the industry standard Common Network Asset Indices Methodology (CNAIM). As such, Ofgem should allow these volumes and retain the Monetised Risk outputs we originally proposed.

5. Storm Arwen

We note Ofgem's reference to Storm Arwen and its aim to "prioritise spending on resilience to severe weather" within the NARM framework. Any changes to the framework in response to Storm Arwen

must go hand in hand with an increase in associated baseline allowances, however, in the Draft Determination, Ofgem has made significant cuts to resilience activities which appears to contradict Ofgem's aim. As further detailed in our response to Q3 of the Overview Document, such changes would take time to implement and as such we propose that the Authority should be able to trigger the Storm Arwen re-opener at any point in the RIIO-ED2 period to provide the relevant funding for DNOs. GEMA must properly fund the outputs it requires from companies.

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| Question ID | Core-Q55. |
| Question | Do you agree with our proposal to pass through SW 1-in-20 costs as a variant totex allowance rather than a fixed allowance in RIIO-ED2? |
| Response | |
| <p>We accept the proposed change to the treatment of severe weather 1 in 20 costs as a variant totex allowance. We agree with Ofgem’s statement that these events are infrequent and outside a DNO’s control which makes it difficult for an accurate forecast of anticipated events and associated costs. We also agree that the proposed change will protect customers and enable DNOs to act accordingly to restore supplies promptly and efficiently.</p> <p>Ofgem should engage further regarding the defined activities that a DNO can recover (as per Core Methodology Section 6.172). As a minimum, and on reflection of Storm Arwen, we would expect that DNOs should be able to claim for fault repairs, increased staffing levels (beyond normal operation), mobile generation (beyond normal operation) and welfare costs. This is reflective of the agreement for recovering the costs of Storm Arwen, bar the inclusion of Compensation Payments. We would also like to see a clear statement on the proposed timeframe for when claims are issued to when they are approved to ensure that claims are managed in a timely manner.</p> | |

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| Question ID | Core-Q56. |
| Question | Do you agree with our proposal to not set a cap for the amount that DNOs can adjust their allowance by, in the event they experience a SW 1-in-20 storm? |
| Response | |
| <p>Ofgem has clearly stated that there is no allowance for 1 in 20 weather events and all costs associated with defined activities can be passed through. We agree that this provides the right level of protection for customers and DNOs. Although a 1 in 20 weather event is unlikely, there have been instances in our SHEPD network where two 1 in 20 weather events have occurred within a single price control period.</p> <p>We agree with the approach to not set a cap on the amount the allowance can be adjusted by, but we do request that Ofgem clearly defines the activities that will be subject to pass through as part of the proposed mechanism change. As a minimum, and on reflection of Storm Arwen, we would expect that DNOs should be able to rightly claim for fault repairs, Increased Staffing levels (beyond normal operation), Mobile Generation (beyond normal operation) and Welfare costs. This is reflective of the agreement for recovering the costs of Storm Arwen, bar the inclusion of Compensation Payments. We would welcome further engagement with Ofgem on the defined activities.</p> | |

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| Question ID | Core-Q57. |
| Question | Do you agree with our proposed approach to the physical site security reopener? |
| Response | |
| <p>Yes, we agree with the proposed approach to the physical site security site re-opener, subject to:</p> <ul style="list-style-type: none"> • Neither the 'RIIO-ED2 Draft Determinations – Core Methodology Document' nor the RIIO-ED2 Methodology Decision: Annex 1 - Delivering value for money services for consumers' mention the ability for the Authority to trigger the re-opener. In 'RIIO-2 Final Determinations - Core Document', paragraph 7.101, the ability for the Authority to trigger the re-opener was introduced by Ofgem for transmission and gas distribution. The reason cited was ensuring network companies "are appropriately funded should these costs arise outside of the two re-opener windows". We ask Ofgem to adopt a similar approach for electricity distribution. • The mid-period application window, 24th January – 31st January 2026, dates include two weekend days. We propose this is amended to 26th January – 30th January 2026 to encompass only working weekdays. | |

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| Question ID | Core-Q58. |
| Question | Do you agree with our proposed approach to the ESR re-opener? |
| Response | |
| <p>Yes, we agree with the proposed approach to the ESR re-opener, subject to:</p> <ul style="list-style-type: none">• Introducing the ability for the Authority to trigger the re-opener at any point of the price control and/or introducing an additional company trigger window in 2026. Like our response to Core-Q57 it is important DNOs are appropriately funded should costs arise outside of the re-opener window, noting potential delays that could arise within external bodies such as BEIS and the ESO. We ask Ofgem to ensure the re-opener has sufficient flexibility to accommodate delays outside our control. | |

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| Question ID | Core-Q59. |
| Question | Do you agree with our approach to fund DNO telecoms resilience activities through baseline allowances? |
| Response | |
| <p>Yes, we agree in principle with Ofgem’s approach to fund DNO telecoms resilience activities through baseline allowances. We agree that that there have been no significant developments between publication of SSMD and Draft Determination. However, where spectrum is made available earlier, then Ofgem must provide a funding route.</p> <p>This lack of development gives rise to some concerns in relation to how we communicate with our customers during power outages. Our Business Plan addresses our communications with our staff and seeks to mitigate risks to our own operations. At present, it does not include proposals for maintaining communications with our customers following the PSTN switch-off. It remains unclear whether this issue should be addressed by the electricity industry or by the telecommunications industry. The need for action was highlighted during this winter’s storm events and, if necessary, we believe it would be appropriate to address this aspect of telecoms resilience via the proposed reopener for Storm Arwen.</p> | |

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| Question ID | Core-Q60. |
| Question | Do you agree with our proposal to assess the cyber resilience IT and OT plans against our BPG and RIIO-2 re-opener guidance? |
| Associated Evidence | |
| Title | Link to Evidence |
| Confidential Cyber Annex | n/a |
| Response | |
| <p>This response should be read in conjunction with our confidential Cyber Annex. In principle, we agree with Ofgem’s proposal to assess the cyber resilience IT and OT plans against Ofgem’s BPG and RIIO-2 re-opener guidance. However, we note that this re-opener guidance currently does not apply to RIIO-ED2, and therefore must be consulted on through the appropriate processes prior to introduction.</p> <p>We do not agree with the proposal to only provide funding for year one projects, with further submissions at reopener windows including in the first year of RIIO-ED2. This approach does not give us the confidence to commence multi-year projects, nor does it enable us to efficiently ramp up resources to deliver our cyber resilience plans. This could therefore have a significant impact on consumers in delaying critical projects and heightening cyber-resilience risks.</p> <p>We submitted 19 projects, each with detailed cost breakdowns. It is not appropriate for Ofgem to expect further submissions at later gate stages for projects that are deemed to be well justified and are clearly required. Such an approach would considerably delay project development and is unnecessary under a UIOLI allowance.</p> <p>The reopeners are essential and should be used to reflect changes to our plans as a result of external factors which are beyond our control and still uncertain. Since we submitted our business plan in December 21, examples already include:</p> <ul style="list-style-type: none"> • Increased threat profile as a result of world events • Revision to the scope of NIS Regulations to include certain IT systems <p>We have a concern with the direction of travel from Ofgem in relation to Cyber and the implications and consequences from the desire to move funding from baseline to reopeners. We do not agree that this is proportionate and will, if not corrected, result in a delay to our mitigation of risks. We believe strongly that we have complied with the guidance and have provided a comprehensive submission that looks to protect customers from the risks during RIIO-ED2.</p> <p>We do not believe that Ofgem's proposed approach is sensible in terms of delivering reduced costs for the consumer, indeed it is likely to lead to higher risks and higher costs. We consider this to be ill thought out and ignores the mechanisms that are already in place, which we believe should continue to be used.</p> <p>We are willing to work with Ofgem to achieve the best outcomes for customers. We cannot support a position that delays this programme and we do not consider it to be consumers best interests. If Ofgem addresses our baseline funding concerns and uses reopeners for their original design, which is to address emerging issues, then this will negate or reduce the additional burden that would otherwise be added to both our specialist resource and that of Ofgem. We believe there is a pathway to do this and a will from our side to ensure work towards this outcome.</p> | |

To reiterate again, we do not consider the precedent set out in RIIO-T2 to be the same as we are working to within RIIO-ED2. Ofgem needs to reconsider its funding approach prior to the start of RIIO-ED2 to ensure that DNOs can deliver the highest possible level of cyber resilience in a timely fashion.

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| Question ID | Core-Q61. |
| Question | Do you agree with our proposed re-opener windows for cyber resilience OT and IT? |
| Response | |
| Yes, we agree with Ofgem's proposed re-opener windows for cyber resilience OT and IT. | |

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| Question ID | Core-Q62. |
| Question | Do you agree with our proposal to apply a UIOLI allowance to cyber resilience OT to manage the uncertainty around costs? |
| Response | |
| <p>We partially agree with Ofgem’s proposal. Whilst we are supportive of the principle of a UIOLI on cyber resilience OT, there is a lack of clarity in ‘RIIO-ED2 Draft Determinations – Core Methodology Document’, paragraphs 6.223 – 6.2224 which we need to be resolved before we can fully support this proposal:</p> <ul style="list-style-type: none">• In 6.224 of the Core Methodology, it is noted the UIOLI will be used in addition to a PCD for cyber resilience OT. The UIOLI and PCD mechanisms are similar in their nature and purpose. We question whether there is a need for both mechanisms, given they achieve the same ends via different means?• 6.223 of the Core Methodology notes “in response to re-opener applications, we will determine as part of that process the PCDs that apply to that funding”, but 6.224 does not note whether a UIOLI applies to all cyber OT investments funded via the re-opener. We ask Ofgem to provide clarity on whether a UIOLI applies to re-opener determined funding. | |